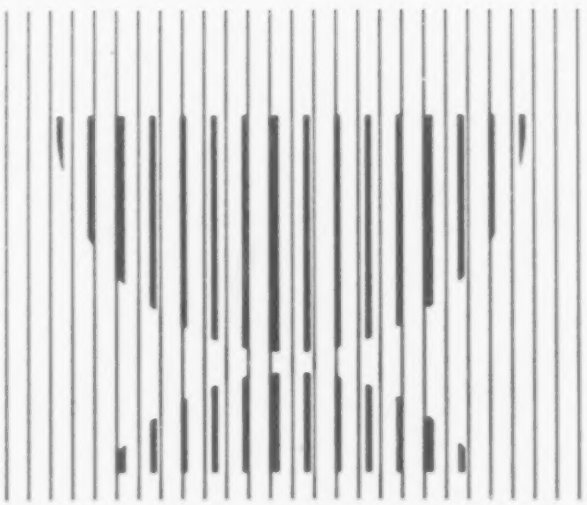
CBO STAFF MEMORANDUM

IMPLICATIONS OF ADDITIONAL REDUCTIONS IN DEFENSE SPENDING

October 1991



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In view of the worsening outlook for the deficit and the evolving situation in the Soviet Union, some Members of Congress have raised the possibility of making cuts in defense spending that are greater than those planned by the Administration and required by the Budget Enforcement Act of 1990. This Congressional Budget Office (CBO) staff memorandum, prepared at the request of the Chairman of the Senate Budget Committee, examines two defense spending paths. The Chairman specified the main aspects of each alternative. The first alternative would reduce national defense budget authority to $275 billion by 1997, compared with about $305 billion under the Administration's plan. The second scenario would lower the national defense budget to $250 billion by that same year. In keeping with CBO's mandate to provide neutral and nonpartisan analysis, this memorandum discusses the implications of these two alternatives but makes no recommendations about their desirability.

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INTRODUCTION AND SUMMARY

The Soviet military threat continues to recede. The collapse of a strong central government in the Soviet Union seems to reinforce earlier judgments by intelligence professionals that Soviet conventional military forces no longer represent an immediate threat to the security of the United States and Europe. Ratification of the Conventional Forces in Europe (CFE) Treaty will confirm a momentous reduction of armaments in the European theater, the area where the two most costly wars of the twentieth century have begun. The leaders of the United States and the Soviet Union have recently signed the Strategic Arms Reduction Talks (START) Treaty, the first such accord to mandate reductions in strategic warheads. Moreover, each head of state has since ordered the elimination of thousands of tactical nuclear weapons and proposed even more significant steps to limit strategic forces.

At the same time, the deficit outlook for the United States has deteriorated. The Congressional Budget Office (CBO) predicts that in 1992 the deficit will reach $362 billion. Although the deficit is expected to decrease in the years beyond 1992, it will remain substantial through the decade if no further deficit reduction measures are adopted. Because of the magnitude of the projected deficit, the Congress is constrained in its ability to commit additional resources to social needs, such as health care, education,

research, and investment in public infrastructure. Indeed, spending for nondefense activities would actually have to be reduced in real terms in 1994 and 1995 if the Congress approves the defense budget the Administration proposed while also complying with the limits last year's budget agreement set.[1]

One way to reduce the federal deficit or to provide more resources for nondefense spending is to impose heavier cuts on defense spending than those proposed by the Administration. This Congressional Budget Office staff memorandum examines two alternative defense budget paths that were specified by the Chairman of the Senate Budget Committee. The first of these would reduce national defense budget authority to $275 billion by 1997, an additional reduction of about $30 billion, or 10 percent, beyond the cuts the Administration proposed. The second alternative would achieve a national defense budget of $250 billion by 1997, an additional reduction of about $55 billion, or 18 percent (see Table 1). In the first scenario, active-duty military personnel would be reduced by 90,000 a year, while the second envisions a decrease of 110,000 a year.

Alternative I, which reduces defense spending to $275 billion by 1997, would save a total of $70 billion of budget authority, or 5 percent of the Ad-

1. See testimony of Robert D. Reischauer before the Senate Budget Committee, July 16, 1991.

TABLE 1. ALTERNATIVE NATIONAL DEFENSE BUDGETS
(In billions of current dollars)

	1992	1993	1994	1995	1996	1997	1993-1997 Total
Administration's Budget Projection[a]							
Budget Authority	290.8	290.9	295.0	297.9	300.3	304.9	1,489.0
Outlays	298.2	292.8	289.9	291.4	295.8	294.6	1,464.4
Alternative I							
Budget Authority	290.8	287.8	288.3	286.4	281.4	275.0	1,418.9
Outlays	298.2	291.6	286.5	284.1	281.8	270.4	1,414.4
Alternative II							
Budget Authority	290.8	284.0	278.9	271.7	261.4	250.0	1,346.1
Outlays	298.2	289.7	280.4	273.2	265.7	249.3	1,358.3

SOURCE: Congressional Budget Office.

a. As reestimated by CBO. Estimates for 1994 and beyond exclude the change in accrual accounting for retirement costs proposed by the Administration and thus exceed figures reported by the Administration by about $3 billion. Outlay estimates reflect CBO assumptions about timing of outlays.

ministration's projected funding for the 1993-1997 period. Savings in outlays would total $50 billion over the same period. Two-thirds of the reduction in budget authority—nearly $47 billion from 1993 through 1997—would be drawn from the investment appropriations. This represents 7 percent of the investment spending planned by the Administration for the five-year period. A reduction of this size could mean canceling one or two major modernization programs and delaying several others. By 1997, under the across-the-board cuts assumed in this memorandum, the active-duty military would be about 12 percent smaller than the Administration's base force. The forces that would remain, however, would be able to maintain their training and operating tempos at current rates and would not lack equipment.

Alternative II, which achieves a $250 billion national defense budget by 1997, would reduce defense budget authority below the Administration's plan by $143 billion, or 10 percent, in the 1993-1997 period. Of this amount, $86 billion—almost twice the amount in Alternative I—would be cut from investment programs the Administration plans. Savings of this magnitude could require canceling several major acquisition programs and delaying others. Military forces would be nearly one-fifth smaller than the Administration's planned base force by 1997 under this alternative. The forces that would remain might, because of the investment reductions, need

to continue to operate older equipment longer than planned, but they would retain the funding necessary to maintain readiness at current levels.

Although this memorandum addresses implications of the alternative budget cuts on military forces, personnel and readiness, and investment, it does not attempt to determine whether the defense forces that would be retained under the smaller budgets would be adequate to meet U.S. security needs.

THE ADMINISTRATION'S PROPOSED DEFENSE REDUCTIONS

The Administration's plan for reducing the military establishment calls for cutting the number of active-duty military personnel to 1.63 million by 1997, a 21 percent reduction from the 1990 level of 2.07 million, with selected reserve forces reduced by almost the same percentage. Table 2 specifies the forces that are planned for 1997, the final year of DoD's Future Years Defense Program (FYDP). The Administration refers to these forces as the "base force." Twelve active Army divisions would remain in the base force, down from 18 in 1990, while the 10 existing National Guard divisions would be consolidated into six. Air Force tactical fighter wings would be reduced from 36 to 26, with all but one of those that would be eliminated being taken

TABLE 2. PROPOSED MILITARY FORCE REDUCTIONS

	1990	Base Force[a]	Percentage Reduction
Active Forces			
Ground Forces			
Army divisions	18	12	33
Marine brigades	9	7[b]	22
Naval Forces			
Aircraft carriers	13	12	8
Carrier air wings	13	11	15
Ships[c]	545	448	18
Air Force			
Tactical fighter wings	24	15.5	35
Strategic Forces			
Land-based ICBMs	1,000	550	45
Sea-launched ballistic missiles	608	432	29
Strategic bombers (PAA)	228	181	21
Reserve Forces			
National Guard divisions	10	6	40
Marine brigades	3	3	0
Carrier air wings	2	2	0
Tactical fighter wings	12	11	8

SOURCE: Statement of General Colin Powell before the House Appropriations Committee, Subcommittee on Defense, September 25, 1991, except as noted.

NOTE: ICBM = intercontinental ballistic missiles.

a. Forces planned for 1997 by the Administration.

b. Estimated by Congressional Budget Office based on U.S. Marine Corps personnel reduction.

c. Includes reserve forces ships.

from the active component. The number of active and reserve Navy combatant ships would be reduced to 448, down from 545 in 1990. Twelve aircraft carriers would remain in the base force, together with 11 active and two reserve air wings.

Budgetary Implications

The Administration's changes in military forces, together with changes in investment spending, would result in military budgets substantially lower in real terms than that of 1990. In the President's national defense budget, as reestimated by CBO, national defense budget authority (expressed in constant 1992 dollars) would decline by 21 percent between 1990 and 1995, with an additional reduction of 6 percent planned for 1995 to 1997.

The reduced level of budget authority for 1992 and 1993 complies with the limits imposed by the Budget Enforcement Act of 1990. The act limits overall discretionary expenditures beyond 1993 but does not impose separate limits on defense or other budget categories. The Administration's budget proposals for 1994 and 1995 suggest that both defense and nondefense discretionary expenditures would be reduced in real terms in order to comply with the limits in the act.

ALTERNATIVE I. A REDUCTION TO $275 BILLION BY 1997

The first alternative examined in this memorandum sets the target level of national defense budget authority at a nominal level of $275 billion in 1997, about 10 percent below the Administration's proposed budget figure of $305 billion.[2] Reductions in active-duty personnel under Alternative I would amount to 90,000 people in each year between 1993 and 1997. This would leave 1.44 million people on active duty in 1997, compared with about 1.63 million under the Administration plan.

CBO makes several other assumptions in this memorandum about the nature of the additional reductions. It assumes that the number of selected reserve personnel will not be reduced by more than the Administration has proposed, which is consistent with the spirit of recent Congressional action. Indeed, the House and Senate have not even accepted all of the Administration's proposed cuts in reserve forces for 1992.

In order to avoid reducing funds available for activities related to readiness, money in the operation and maintenance appropriation (which pays for many day-to-day operating costs) is assumed to be reduced in proportion

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2. The Administration estimates the Department of Defense's total obligational authority in 1997 at $288 billion. CBO projected 1996 data for other elements of the national defense budget (chiefly Department of Energy defense programs) to arrive at the $305 billion figure.

to reductions in spending for personnel. After spending reductions for personnel and for day-to-day operating activities are calculated, all remaining savings would be achieved by reducing spending for investment. The various categories of investment funds (procurement; research, development, test, and evaluation; military construction; and defense investment by the Department of Energy) are assumed to be reduced in proportion to their current budget shares. Finally, to avoid imposing precipitous budgetary cuts, reductions are assumed to begin in 1993 and to increase gradually through 1997.

Budgetary Savings

Budgetary savings would be substantial under Alternative I. Compared with the Administration's plan, the alternative would reduce defense budget authority by about $30 billion, or 10 percent, in 1997 and by a total of about $70 billion, or 5 percent, over the 1993-1997 period (see Table 3). Savings in the investment appropriations equal $47 billion in 1993-1997. Thus, the investment appropriations contribute about two-thirds of the total savings in budget authority, but make up only 44 percent of overall spending in 1993-1997. Operating savings of $23 billion make up the balance of the total savings in budget authority.

TABLE 3. REDUCTIONS BELOW THE ADMINISTRATION'S BUDGET UNDER ALTERNATIVE I
(In billions of dollars)

	1993	1994	1995	1996	1997	1993-1997 Total
Operating Appropriations						
Military Personnel	0.0	0.1	0.8	2.8	6.4	10.0
Operation and Maintenance	0.0	0.1	0.9	3.1	7.2	11.3
Other	0.1	0.2	0.4	0.5	0.7	1.9
Subtotal	0.1	0.4	2.0	6.4	14.4	23.2
Investment Appropriations						
Procurement	1.6	3.3	5.4	7.1	9.0	26.5
Research, Development, Test and Evaluation	1.0	1.9	2.7	3.4	4.1	13.1
Military Construction	0.1	0.3	0.5	0.6	0.7	2.3
Atomic Energy	0.3	0.6	1.0	1.4	1.7	4.9
Subtotal	3.0	6.3	9.5	12.5	15.5	46.8
All Appropriations						
Budget Authority	3.1	6.7	11.5	18.9	29.9	70.0
Outlays	1.1	3.3	7.3	14.0	24.2	50.0

SOURCE: Congressional Budget Office.

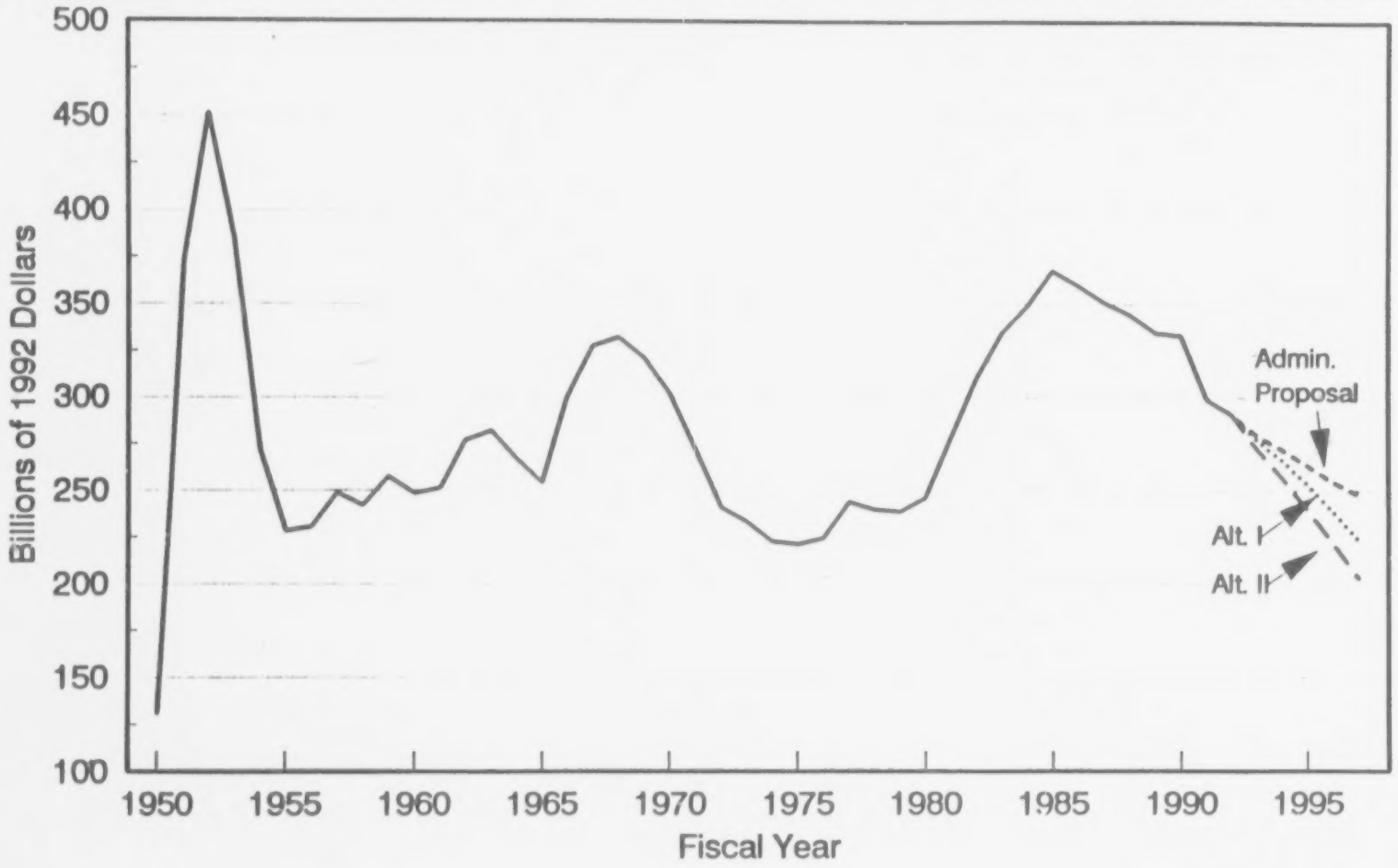
NOTE: All data are shown as reductions in budget authority, except for the final line, which shows outlay reductions. Numbers may not add to totals because of rounding.

Alternative I would also result in substantial reductions in defense outlays. Compared with the Administration's plan, outlays would be reduced by about $50 billion during the 1993-1997 period. Reductions in the investment appropriations produce $29 billion, or 58 percent of this amount, as compared with $21 billion, or 42 percent, from reduced operating and support outlays.

The budgetary reductions under Alternative I would be substantially larger than those the Administration proposed. Alternative I would result in an average real decline in total national defense budget authority over the 1993-1997 period of about 5 percent a year, compared with an average annual real decline of 3 percent under the Administration's defense plan. By 1997, the $275 billion national defense budget would be about 33 percent smaller in real terms than the budget in 1990, compared with a reduction of 26 percent under the Administration's plan.

The $275 billion budget would, after adjustment for inflation, approximately equal defense budgets in the mid-1970s, when defense spending fell to its lowest level since 1950 (see Figure 1). However, the budget under Alternative I would considerably exceed the level of defense spending during the 1947-1950 period, between World War II and the Korean conflict.

FIGURE 1. REAL BUDGET AUTHORITY FOR NATIONAL DEFENSE



Reduction in Numbers of Forces

DoD has many ways to reduce its active-duty military forces to accommodate the additional reduction in active-duty military personnel assumed in Alternative I. To illustrate one possible outcome, Table 4 shows reductions in numbers of forces, assuming that, compared with the Administration's plan, the number of active forces in each service is reduced below the Administration's proposed level by 12 percent, the same percentage by which overall active-duty personnel are reduced. There are no additional cuts in reserve forces beyond those proposed by the Administration. The method used to generate the force cuts under Alternative I assumes that additional cuts are made proportionately by each military service and that support functions (for example, training, medical care, and administration) are reduced in proportion to cuts in combat forces.

An additional cut of 12 percent in Army forces would result in the elimination of about one and one-third divisions (four combat brigades) together with their supporting forces. This would leave the Army with fewer than 11 active divisions. The reduction in Navy personnel could result in the elimination of one or two carrier battle groups (leaving 10 or 11) and the loss of 52 combatant and support ships (leaving 396). The Air Force would have to reduce its 15.5 tactical fighter wings by 2, leaving 13.5, and make con-

TABLE 4. REDUCTIONS IN ACTIVE-DUTY MILITARY FORCES UNDER ALTERNATIVE I BY 1997, ASSUMING PROPORTIONAL CUTS

	Administration's Base Force	Alternative I	Reduction
Army Divisions	12	10⅔	1⅓
Carrier Battle Groups	12	10 or 11	1 or 2
Navy Ships	448	396	52
Air Force Tactical Fighter Wings	15½	13½	2
Active Marine Corps Brigades	7	6	1

SOURCE: Congressional Budget Office.

comitant reductions in airlift, strategic bombers, and tanker forces. The active component of the Marine Corps would lose one more brigade, reducing each of the three active Marine Expeditionary Forces to a two-brigade unit by 1997.

The across-the-board pattern of reductions could be altered if disproportionately large reductions were made in certain categories of forces. Table 5 illustrates some possibilities. For example, if a decision were made to eliminate three tactical fighter wings, rather than the two wings that were eliminated under the across-the-board cuts, then savings in operation and support costs would increase by $2 billion in 1993-1997. Those savings could be used to minimize reductions in other types of units, whose operation costs are also shown in Table 5.

More far-reaching changes could also be made in some types of forces. Some observers have proposed that, in the wake of improvements in relations between the United States and the Soviet Union, the two superpowers should seek significant reductions in their nuclear weapons. If such reductions could be achieved within a few years, reductions in conventional military forces could be even smaller than those proposed in Alternative I while still achieving the required budgetary savings.[3] The implications of making deep

3. See testimony of Robert D. Reischauer before the Senate Committee on Foreign Relations, September 25, 1991, for estimates of savings from reducing strategic forces.

TABLE 5. SAVINGS UNDER ILLUSTRATIVE OPTIONS THAT REDUCE OPERATION AND SUPPORT SPENDING
(In billions of dollars of budget authority and thousands of persons)

Force(s) Eliminated	Average Annual Savings	Total Savings in 1993-1997	Reduction in Personnel
Heavy Army Division (Europe) (3 brigades)	2.4	12.0	46
Active Round-Out Division in U.S. (2 brigades)	1.8	8.8	34
Marine Expeditionary Brigade	1.0	5.0	20
Aircraft Carrier Battle Group	1.1	5.6	19
Carrier Air Wing	0.4	2.0	6
10 Attack Submarines	0.4	1.8	5
Tactical Fighter Wing	0.4	2.0	6
50 Minuteman Missiles	0.1	0.5	1
20 B-52 Bombers	0.3	1.7	5
1 Poseidon Submarine	0.1	0.5	1

SOURCE: Congressional Budget Office.

NOTE: Annual savings in operation and support costs and personnel include direct, indirect, and overhead figures. Savings for the period 1993-1997 assume that the reduction is implemented in 1993.

strategic cuts in the context of the overall budget limits set by Alternative I are presented in the Appendix.

Effects on Personnel and Readiness

Under Alternative I, active-duty personnel would be reduced by 90,000 a year, compared with the Administration's proposed annual reductions averaging 52,000 in the 1993-1997 period. In view of the smaller size of the military under the alternative, the services could further reduce the numbers of new personnel they bring in. Relying exclusively on cuts in enlistments, however, would unbalance the military's grade structure. In the short run, promotions would be slowed and senior personnel would be forced to perform the work of more junior personnel; in the longer run, a shortage of people qualified to fill leadership roles could develop.[4] Therefore, the services probably would involuntarily separate even more personnel than under the Administration's plan. Alternatively, the Congress could enact an early retirement plan or other monetary incentive designed to increase the number of voluntary departures. The savings shown for this alternative, however, implicitly assume that additional losses represent involuntary separations and that no new separations benefits are made available.

4. For a more complete discussion of personnel issues, see Congressional Budget Office, "Managing the Reduction in Military Personnel," July 1990.

Reducing the size of the military at a faster pace may add to the burden the services bear during the transition, but should not affect readiness of the forces that remain after the drawdown is complete. As units are eliminated, personnel who still have tours of duty to complete will need to be reassigned, perhaps physically moved, and often retrained for new jobs. Transferring equipment or preparing it for storage will absorb time that might otherwise be spent on training activities. Thus, some loss in overall military readiness is likely during the transition period. The larger cuts that Alternative I imposes could exacerbate these problems. However, once this transition period is past, the day-to-day operating funds available to a typical unit will remain unchanged from current levels and training and activities related to readiness could continue largely intact.

Changes in Investment

Alternative I would cut $15.5 billion from DoD's investment program in 1997 and a total of $46.8 billion from those programs in 1993 through 1997 (see Table 3). CBO assumes that cuts in procurement, research and development (R&D), military construction, and defense investment programs in the Department of Energy are proportional. Thus, procurement cuts would amount to $9 billion in 1997 and $26.5 billion in the 1993-1997 period. Research and development cuts would amount to $4.1 billion in 1997 and

$13.1 billion over the five-year period. These numbers are, of course, only representative of the magnitude of the cuts required. The actual mix of procurement and R&D cuts could vary to reflect the priorities of the Congress and the Administration.

Investment savings of these magnitudes could be accomplished by delaying a number of acquisition programs. Alternatively, the Administration and the Congress could accomplish most of the reduction by terminating or scaling back a few large programs. Table 6 lists some examples of specific reductions, together with potential savings.

ALTERNATIVE II. A REDUCTION TO $250 BILLION BY 1997

Alternative II would achieve a national defense budget of $250 billion by 1997. Reductions in the number of active-duty personnel would be set at 110,000 a year, leaving the 1997 active-duty level at 1.34 million persons.

The assumptions made in analyzing Alternative II are generally the same as those used in analyzing the first alternative, with one important exception. Under Alternative II, it is assumed that the number of selected reserve personnel would be reduced about 22 percent below the Administration's proposal. Thus, by 1997, selected reserve forces would total about 700,000

TABLE 6. SAVINGS UNDER ILLUSTRATIVE OPTIONS THAT REDUCE INVESTMENT SPENDING
(In billions of dollars of budget authority)

Option	Reduction in 1993-1997 Compared with the Administration's Proposal
Reduce Funding for Modernization of Armored Systems[a]	2.3
Cancel C-17 Airlift Aircraft[a,b]	19.4
Terminate Production of New B-2 Bomber	20.9
Reduce Spending for Strategic Defense Initiative[a]	20.3
Cancel National Aerospace Plane[a]	1.4
Cut Development and Testing of Nuclear Warheads by One-Third[a]	13.0
Cancel F-22 Program[b]	11.8
Cancel Aircraft Carrier Purchase	4.2
Cancel SSN-21 Submarine Program[b]	17.3

SOURCE: Congressional Budget Office.

NOTE: These options are presented as illustrations, not as recommendations.

a. For a discussion of pros and cons, see Congressional Budget Office, "Selected Spending and Revenue Options," June 1991.

b. Some of the savings might have to be devoted to purchases of other systems to meet mission needs.

TABLE 7. ALTERNATIVES FOR REDUCING SELECTED RESERVE PERSONNEL (In thousands)

	1990 Level	Base Force and Alternative I	Alternative II
Army National Guard	437	321	250
Army Reserve	299	230	180
Navy Reserve	149	118	90
Marine Corps Reserve	45	35	30
Air National Guard	117	119	90
Air Force Reserve	81	82	60
Total	1,128	905	700

SOURCES: Office of the Assistant Secretary of Defense (Reserve Affairs) for 1990 and Base Force; Congressional Budget Office for Alternative II.

people under this alternative, as opposed to the 906,000 in the Administration's plan (see Table 7 for details).

Budgetary Savings

Under Alternative II, reductions in budget authority below the Administration's proposed level would amount to about $55 billion or 18 percent in 1997, and would total $143 billion or about 10 percent in the 1993-1997 period (see Table 8). The resulting budgets would be smaller than all budgets since 1950, but still about 10 times larger than pre-World War II military budgets.

Outlay reductions under this alternative would total $106 billion in the 1993-1997 period. Reductions in 1994 and 1995 would be about three-quarters of those needed to avoid any real reductions in nondefense spending while still complying with last year's budget agreement.[5]

5. For a more complete discussion of this issue, see Testimony of Robert F. Hale before the Senate Budget Committee, July 16, 1991.

TABLE 8. REDUCTIONS BELOW THE ADMINISTRATION'S BUDGET UNDER ALTERNATIVE II
(In billions of dollars)

	1993	1994	1995	1996	1997	1993-1997 Total
Operating Appropriations						
Military Personnel	0.5	1.8	3.7	7.0	12.0	24.9
Operation and Maintenance	0.5	2.0	4.1	8.0	13.5	28.2
Other	0.2	0.5	0.7	1.0	1.2	3.6
Subtotal	1.2	4.4	8.5	16.0	26.7	56.8
Investment Appropriations						
Procurement	3.1	6.3	10.0	13.0	16.4	48.7
Research, Development, Test, and Evaluation	1.9	3.7	5.0	6.3	7.4	24.2
Military Construction	0.2	0.6	0.9	1.1	1.4	4.2
Atomic Energy	0.6	1.2	1.8	2.5	3.0	9.1
Subtotal	5.8	11.7	17.6	22.9	28.1	86.1
All Appropriations						
Budget Authority	7.0	16.1	26.1	38.9	54.8	142.9
Outlays	3.0	9.5	18.1	30.1	45.4	106.1

SOURCE: Congressional Budget Office.

NOTE: All data are shown as reductions in budget authority, except the final line, which shows outlay reductions. Numbers may not add to totals because of rounding.

Changes in Numbers of Forces, Personnel, and Readiness

The additional 100,000 active-duty personnel eliminated under Alternative II would require somewhat larger cuts in active-duty forces than the cuts under Alternative I. If cuts in the military services were made as they were in Alternative I, each service would be reduced about 18 percent more than it would be under Administration plans. For the Army, this would result in the elimination of two divisions (six combat brigades) from the active component, leaving 10 divisions (see Table 9). Four combat brigades would be eliminated from the Army's reserve components, leaving fewer than five National Guard divisions. The reduction in Navy personnel could result in the elimination of two carrier battle groups (leaving 10) and the loss of about 80 combatant and support ships from the 448-ship fleet in the base force. The Air Force would be reduced to 12.5 tactical fighter wings in the active component and about 8.5 in the reserve component. Although the active component of the Marine Corps could retain three active divisions, each with two brigades, the reserve division would lose one of its three brigades.

Because it cuts more personnel and forces, this alternative would make the transition to a smaller force more difficult. For example, involuntary separations of career military personnel might increase by about 100,000,

TABLE 9. REDUCTIONS IN MILITARY FORCES UNDER ALTERNATIVE II BY 1997, ASSUMING PROPORTIONAL CUTS

	Administration's Base Force	Alternative II	Reduction
	Active Forces		
Army Divisions	12	10	2
Carrier Battle Groups	12	10	2
Navy Ships	448	368	80
Air Force Tactical Fighter Wings	15½	12½	3
Marine Corps Brigades	7	6	1
	Reserve Forces		
National Guard Divisions	6	4⅔	1⅓
Tactical Fighter Wings	11	8½	2½
Marine Corps Brigades	3	2	1

SOURCE: Congressional Budget Office.

compared with those necessary under the Administration's plan. Faced with this increase, the Congress might feel it necessary to increase incentives for voluntary separation in order to ease this burden. Once this transition period passed, however, the readiness of the remaining units should not be adversely affected.

Effects on Investment

Reductions in investment spending would be substantial under Alternative II. Investment funding in 1997 would be reduced by $28 billion, a reduction of 21 percent below the Administration's proposal (see Table 8). The total reduction of $86 billion through 1997 would represent a cut of 13 percent in the Administration's planned investment spending for that period. Assuming the proportional cuts that are used in analyzing these alternatives, procurement programs would have to be reduced below the Administration's request by $16.4 billion (21 percent) in 1997 and research and development appropriations by $7.4 billion (21 percent).

Achieving these substantial additional cuts in investment would require canceling a number of the larger defense procurement and research programs and slowing acquisition of other weapon systems. Reductions in minor procurement would also be required.

The cutbacks that would occur under this example could increase shortfalls in spending for procurement over the long run. During the next decade or so, the Administration plans to equip many military units with new and expensive weapons. CBO estimates that under the Administration's plan, procurement budgets in the next decade would have to rise substantially above levels planned for the mid-1990s.[6] The additional reductions in funding for procurement under this alternative could exacerbate this problem. However, further reduction in numbers of forces under this alternative would reduce long-term procurement needs. Reductions in procurement might also prompt the services to hold down the cost of new weapons, thus helping to minimize shortfalls in procurement funding over the long run.

Near-term effects of Alternative II on the defense industrial base may be of even greater concern. Procurement budgets have fallen sharply in recent years, the legacy of large budgets in the 1980s combined with the reductions in forces and tight budgets expected in the 1990s. Coupled with the high prices of many new weapons, the lower procurement budgets of the 1990s will eliminate the purchase of many types of arms. The predictable result: the industrial base for weapons production will shrink, perhaps jeopardizing the ability of the United States to produce weapons in large quantities later in the 1990s or in the next decade, should that be needed. The substantial

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6. See, for example, Testimony of Robert F. Hale before the Subcommittee on Projection Forces and Regional Defense of the Senate Armed Services Committee, June 14, 1991.

reductions in procurement under Alternative II could heighten concern over this problem.

OTHER APPROACHES

Other approaches to cutting defense spending are certainly possible. The pattern of reductions laid out in the two alternatives presented above limits the pace of cuts in personnel, leaving the balance of cuts to come out of spending for investment. Within each category, the alternatives assume proportionate cuts in individual appropriations. The Congress, however, has many other options if it determines that additional cuts in defense spending are appropriate. It could cut only active forces, or both active and reserve forces. It could reduce the appropriation for day-to-day operating costs (operation and maintenance) beyond those cuts assumed here, either by mandating additional efficiencies in day-to-day operations or by limiting funds for training and support.

Within the investment accounts, the Congress could follow the lead of the Administration and favor research and development funding by making larger reductions in procurement appropriations at a time when the services enjoy equipment surpluses. Conversely, it might seek additional cuts in research and development appropriations, restoring them to their historical balance

with procurement spending. Planning future defense budgets will require careful consideration of the nation's military priorities and may depend, as well, on how the world political situation evolves.

APPENDIX

A DEEPER CUT IN STRATEGIC FORCES

Recent days have seen dramatic proposals by Presidents Bush and Gorbachev to eliminate land-based tactical nuclear warheads and to negotiate major reductions in strategic warheads. Smaller reductions in spending for conventional forces would be possible if the Administration and the Congress were to agree to a schedule and program for such strategic reductions. This Appendix describes one illustrative example.

The example, which constitutes a third alternative, postulates that the United States would reduce strategic nuclear warheads to a total of 6,000 by 1997, as compared with the approximately 10,500 strategic warheads it would possess under the START treaty limits. The Soviet Union would also limit its warheads to 6,000.

The resulting strategic force, although smaller than current forces, would still provide the United States with substantial ability to absorb a first-strike attack and retaliate against a wide variety of targets. The United States would retain a triad of delivery systems, consisting of 97 B-1 and 30 B-2 bombers, 18 Trident ballistic missile submarines, and land-based missiles. But under this approach, a number of current Administration initiatives to

modernize forces would be terminated or scaled back. In particular, the option assumes that the small intercontinental ballistic missile program would be terminated, only 30 B-2 bombers would be bought, and that fewer Advanced Cruise Missiles and D5 Trident missiles would be purchased than current Administration proposals specify. This illustrative example also assumes that the United States and the Soviet Union agree to reduce the number of strategic warheads to 6,000 in time to begin making the cuts in 1993. If they were to agree later, savings would be smaller in the 1993-1997 period.

This alternative would draw a much greater share of its overall savings from strategic programs than would Alternative I. Reductions in strategic programs, compared with the Administration's plan, would save $26.3 billion over the 1993-1997 period, leaving about $44 billion to be achieved through cuts in conventional force programs (see Table A-1). Only some $24 billion would be saved from operating budgets over the five-year period.

Conventional force reductions would still be necessary to meet the overall target for reducing military personnel set in Alternative I. Strategic force reductions provide relatively little savings in personnel and operating costs. This alternative, however, would delay the schedule for implementing the conventional force reductions described in Alternative I by about two years,

thus giving the Congress and the Administration more time to assess international developments before initiating the process of reducing conventional forces below the Administration's base force level.

TABLE A-1. REDUCTIONS BELOW THE ADMINISTRATION'S BUDGET UNDER ALTERNATIVE III (In billions of dollars)

	1993	1994	1995	1996	1997	Total 1993-1997
Operating Appropriations						
Strategic Forces	0.7	0.9	1.2	1.5	1.6	5.9
Conventional Forces	0.0	0.0	0.8	4.9	12.8	18.5
Subtotal	0.7	0.9	2.0	6.4	14.4	24.4
Investment Appropriations						
Strategic Forces	2.8	1.8	2.2	6.9	6.7	20.4
Conventional Forces	0.0	4.0	7.3	5.6	8.8	25.7
Subtotal	2.8	5.8	9.5	12.5	15.5	46.1
All Appropriations						
Budget Authority	3.5	6.7	11.5	18.9	29.9	70.5
Outlays	1.6	3.6	7.2	13.9	24.3	50.5

SOURCE: Congressional Budget Office.

NOTE: All data are shown as reductions in budget authority, except for the final line, which shows outlay reductions.